



UNIVERSITY OF NAIROBI

UNIVERSITY EXAMINATIONS - 2012/2013

FOURTH YEAR EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

DAC 403 : TAX LAWS AND PRACTICE

DATE: FEBRUARY 1, 2013

TIME: 9.00AM - 11.00AM

INSTRUCTIONS:

Answer ALL the questions.
Questions carry equal marks.

QUESTION ONE

a) Mr. Baba entered into a contract with Babu investments in 1999. The contract was for an unspecified term and provided no provision for payment for compensation. The contract was terminated on 31/12/2011 and Kshs.1,700,000 compensation was paid. The annual pay for Mr. Baba at the time of termination of the contract was Kshs.400,000. Compute the taxable amount. (5 marks)

b) A was employed by ABC Ltd and his services were terminated on 30/09/2012 after serving the company for 20 years. He was paid gratuity of Kshs.1,500,000, three months notice pay of Kshs.90,000 and Kshs.40,000 for his leave days for the year 2010. Tax deduction card for the last six years showed the following:

Year	Taxable Pay	PAYE
2012	1,220,000	293,188
2011	1,567,000	397,288
2010	1,320,000	323,188
2009	1,200,000	287,188
2008	1,210,000	290,188
2007	1,130,000	266,188

- Required:**
- Calculate pay as you earn payable. (18 marks)
 - What is the net amount A will get as his final pay. (2 marks)

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QUESTION TWO

Mrs Safi is a marketing manager with Salicom Ltd. the following information relates to his income for the year ended 31st December 2011.

- Her basic pay is Kshs.80,000 per month (PAYE Kshs.10,000 per month).
- She is married with six children. The life insurance premium for herself and her family amounts to Kshs.25,000 per annum paid by the employer during year.
- She operates a canteen which is located within the employer's premises. The employer deducts Kshs.4,500 per month rent for the canteen although the market rental is Kshs.10,000 pm. The canteen reported a taxable profit of Kshs.120,000 for the year ended 31st.
- She was provided with a house leased by the employer at Kshs.60,000pm. She contributes 3% of her basic pay towards house rent.
- On 1 July 2011 she was provided with a loan by the employer amounting to Kshs.4,000,000 at an interest rate of 4% p.a to enable him purchase a residential house. She moved to the new house on 1st August 2011. She is a member of a registered pension scheme. During the year, she contributed Kshs.180,000 to the scheme while the employer contributed an equal amount.
- She is provided with a motor vehicle (2000cc) for both official and private use. On average three quarters of the motor vehicle usage is for official purpose. The motor vehicle costs was Kshs.1,600,000 in the year 2006 but was valued at Kshs.1,000,000 as at 31st December 2011.
- During the year the employer paid the following bills for her:

School fees (expensed in the company book)	Kshs. 90,000
Telephone bills	40,000
Travelling expense (private)	15,000
Watchman	40,000
- During the year the employer contributed Kshs.30,000 for her to Wadasi Golf Club. She also owns a farm which reported a loss of Kshs.100,000 for the year ended 31st December 2011. He estimates that 5% of the farm output is consumed by the family.

QUESTION THREE

- Required:**
- The taxable income for Mrs Safi for the year ended 31st December 2011. (14 marks)
 - Tax payable. (11 marks)
- QUESTION THREE**
- Distinguish between forward and backward shifting of tax. (4 marks)
 - Explain the extent to which income tax and customs duty can be shifted. (4 marks)
- b) Mali is an employee of Mali Ltd. Details of his remuneration is provided below:
- | | |
|----------------------|------------------|
| 1. Basic salary | Kshs 45,000 p.m. |
| 2. House allowance | 25,000 p.m. |
| 3. Medical allowance | 10,000 p.m. |

4. Company Car (Saloon cc 1500) original cost in 2009 was Kshs.1,000,000.
5. Pension contribution of 45% of basic pay paid by the employer. Mali contributes 10% of his basic pay to the scheme which is registered.
6. The company also meets the salary expense of the driver and house maid whose total salary is Kshs.18,000 p.m.

Required:

- i) Compute the taxable income for Mali (12 marks)
- ii) Compute the PAYE. (5 marks)

QUESTION FOUR

- a)
 - i) Define a turnover tax as contained in the finance bill 2006. (3 marks)
 - ii) What are the benefits of the Electronic tax registers and the fiscalised electronic devices. (7 marks)
- b) Pendo Ltd is a manufacturing company located in industrial area. The following information related to the year ended 31 December 2011.

1. As at January 2011 the written down value of asset were as follows:

	Class I	Class II	Class III	Class IV	Factory building
	1,505,000	6,407,000	4,300,000	3,010,000	17,200,000
2. Disposal during the year were as below:

	Class I	II	III	IV
Cost	Kshs. 1,290,000	Kshs. 430,000	Kshs. 430,000	Kshs. 51,600
Net book value	559,000	129,000	154,800	172,000
Sale proceeds	1,548,000	215,000	344,000	154,800

3. Additional during the year

	Kshs.
Computers	602,000
Factory building extension	8,600,000
Photocopier	275,200
Scanning Machine	86,000
2 ton van	1,720,000
Volvo Saloon Car	3,440,000
Shredder	25,800
Fax Machine	68,800
Processing Machine	2,580,000

4. The old factory building was constructed in 1998 and put into use of 1 July of the same year. The processing machinery purchased was installed into the new factory extension, and processing commenced with effect from 1 October 2011.

- Required:
- i) Compute the capital allowances due to Pendo Ltd for the year ended 31 December 2013. (5 marks)
 - ii) Show the written down value as at 31 December 2011. (2 marks)
 - iii) Explain briefly the class I balance for the year ended 31st December 2011 and its tax implications. (2 marks)

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QUESTION ONE

Peter Odongo is married to three wives. He is an employee of Lake Fisheries Ltd. His income for the year 2009 was as follows:

1. Salary per annum Ksh.800,000 (PAYE Kshs.65,000).
2. Bonus from current employment Ksh.45,000.
3. Interest income
 - Post Office Savings bank Ksh.48,000.
 - Housing Finance Company of Kenya Ksh.300,000.

4. Dividend income Ksh.68,000.	
5. Rent Income	Ksh.
Gross income	249,000
Watchman's salaries	68,000
Painting	27,500
Water and rates	18,300
Fixing signboard	6,000
next to rental houses	119,800
Net income	<u>129,200</u>

6. Peter Odongo is provided with a house by the employer. The employer deducts 5% of his salary as part of rent contribution. The company has rented this premises from an agent at a rent of Ksh.6000 per month.

The first wife Sarah is employed in Haraka Ltd where she earned a salary of Ksh.10,000 per month (PAYE Ksh.3,000 per month) in 2009. Peter Odongo holds 32% of the shares in this company.

Upon marriage, Kadogo, the second wife received Ksh.1,200,000 from the husband (Odongo). With this amount she started a retail shop. The net income from the shop for the year 2009 was Ksh.400,000. Kadogo has also bought shares in Kenya Airways Ltd where she received dividend income amounting to Ksh.43,000 in 2009.

Jacinta the third wife does farming. During the year 2009, she produced farm products which were valued at Ksh.180,000. However, her family consumes an average of 85% of the output from farming.

Required:-

(a) Mr. Peter Odongo's taxable income and tax liability for the year 2009 (20 Marks)

(b) Comment on any information not used in (a) above. (5 Marks)

[TOTAL 25 MARKS]

QUESTION TWO

(a) Briefly explain the following terms:

- | | |
|---------------------------|-----------|
| (i) Trading receipts | (2 Marks) |
| (ii) Balancing charge | (2 Marks) |
| (iii) Balancing deduction | (2 Marks) |

(b) Mr. Kijana bought Kamiti Ltd a Saw Milling Company, on 1 January 2009. The purchase price of the business was equivalent to the written down values of the assets for the purpose as shown below:

	Ksh.
Milling machines	12,000,000
Two forklifts	2,400,000
One lorry (25 tons)	800,000
Two computers	180,000
Two saloon cars	1,300,000
Furniture and Fittings	650,000

The owners of Kamiti Ltd had been operating in a rented building. Kijana constructed a building adjacent to the acquired premises at a cost of Ksh.28,000,000 and shifted to this new building on 1 April 2009. In an effort to expand the business Kijana incurred the following expenditure during the year 2009.

Processing machine	Ksh.
Furniture	8,000,000
Computers	240,000
Three saloon cars (3000 cc)	3,300,000
One lorry (20 tons)	1,300,000
Fork-lifts	1,800,000

Kijana sold the following assets during the year 2009

	Ksh.
Computer	65,000
Fork-lifts	800,000
Furniture	80,000

Required:-

Capital allowances for the company for the year ended 31 December 2009. (19 Marks)

[TOTAL 25 MARKS]

QUESTION THREE

(a) With reference to the VAT Act, write short notes on the following:

- (i) De-registration of taxable persons. (3 Marks)
- (ii) Rebate of VAT and Remission of VAT. (3 Marks)

(b) Dondoa Ltd had the following trading transactions during the month of May 2009. All prices are inclusive of VAT at a rate of 16%

May 2		K sh.2,500,000
5	Purchases	480,000
11	Sales	650,000
15	Purchase returns	300,000
18	Sales	240,000
22	Sales returns	140,000
26	Sales	1,700,000
31	Purchases	1,200,000

A customer who had purchased goods valued at Sh.400,000 (inclusive of VAT on 26 May 2009 was declared bankrupt on 31 May 2009. It was found necessary to write off the amount due as no payment was expected from the customer for the sales made.

Within the month the company purchased an office computer scanner at a price of Sh.65,000 inclusive of 16% VAT and a calculator Sh.28,000 inclusive of VAT at a rate of 16%.

Required:-

- (a) Purchases account (3 Marks)
- (b) Sales account (3 Marks)
- (c) Office equipment account (3 Marks)
- (d) VAT account showing the amount of VAT payable (10 Marks)

[TOTAL 25 MARKS]

QUESTION FOUR

Unga Ltd provided the following profit and loss account for the year of income 2009.

	Sh.(000)	Sh.(000)
Repair of building and machinery	120,000	Gross Profit
Legal expenses	30,000	Profit from sale of treasury bills
Audit fees	45,000	Sales proceeds from machinery
Director's fees	90,000	Foreign dividend
Salaries	690,000	
Welfare expenses	60,000	
Postage and stationery	36,000	
Expenditure on Scientific research	120,000	
Earthquake insurance	24,000	
Reserve for Income Tax	120,000	
General charges	210,000	
Reserve for bad debts	30,000	
Depreciation	45,000	
VAT paid	100,000	
Employee's children school fees	50,000	
Net profit	360,000	
	<u>2,130,000</u>	<u>2,130,000</u>

In addition the following information is provided.

1. The assessor of income tax has agreed wear and tear deductions to be Sh.120,000,000.
2. Repairs to buildings and machinery include Sh.30,000,000 spent on addition to business premises.
3. The machinery sold was a second hand milling machine bought for Sh.60,000,000 in 2004. The tax written-down value was Sh.10,000,000 and this was the only class IV machinery.
4. Legal expenses include Sh.8,000,000 paid for one of the managers of the company in relation to her personal business.
5. The Scientific research expenditure was incurred in research for better quality maize. The Company plants its own maize to supply the raw material for use in the milling business.
6. The school fees paid was assessed on the employees.

Required:-

- (a) Compute the income chargeable to tax for the year of income 2009 and the tax payable thereon. (15 Marks)
- (b) When is such tax payable? (5 Marks)
- (c) State the consequences of submitting fraudulent self-assessment returns to the tax authorities. (5 Marks)

[TOTAL 25 MARKS]



UNIVERSITY OF NAIROBI

MODULE II EXAMINATIONS 2011/2012
(NAIROBI/KISUMU CAMPUS)

FOURTH YEAR EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

DAC 403: TAX LAW AND PRACTICE

DATE: AUGUST 21, 2012

TIME: 6.00 P.M. – 8.00 P.M.

INSTRUCTIONS:

1. Answer all FOUR Questions.
2. All Questions carry equal marks.
3. Time allowed is TWO hours.
4. Show all your workings.

COMMISSIONERS' PRESCRIBED BENEFIT RATES 2009

(i) **RATES OF TAX** (Including wife's employment, self employment and professional income rates of taxed) year of income 2009.

Monthly taxable pay (Shillings)	Annual taxable pay (Shillings)	Rate of tax (% in each shilling)
1 -10,164	1 -121,968	10%
10,165 -19,740	121,969 -236,880	15%
19,740 -29,316	236,881 -315,792	20%
29,316 -38,892	315,793 -466,704	25%
Excess over -38,892	Excess over 466,704	30%

Personal relief Kshs. 1,162 per month (Kshs. 13,944 per annum)

(ii) Prescribed benefit rates of motor vehicles provided by employer

Saloons, Hatch Backs and Estates	Monthly Rates (Kshs.)	Annual Rates (Kshs.)
Up to 1200 cc	3,600	43,200
1201 to 1500 cc.	4,200	50,000
1501 to 1750 cc	5,800	69,600
1751 to 2000 cc	7,200	86,400
2001 to 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800

Pick-up Vans (Unconverted)

Up to 1750 cc.	3,600	43,000
Over 1750 cc	4,200	50,000

Land Rovers / Cruisers

	7,200	86,400
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(iii) Capital Allowances

Wears and tear allowance:

Class I	37.5%
Class II	30%
Class III	25%
Class IV	12.5%

Industrial Building Allowance:

Hotels:	2006	4%
	2007 - 2009	10%

Hostel/Education

Buildings:	2007 - 2009	10%
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Farm works allowance:

2006	33 1/3%
2007 - 2009	50.0%

Investment deduction allowance:

2003	-	70%
2004 - 2008	-	100%
2009	-	85%

Shipping investment deduction - 40%

Mining allowance:

Year 1 - 40%
Year 2-7 - 10%

(iv) Commissioner's prescribed benefit rate

Services	Monthly rates (Shs)	Annual rates (Shs)
Electricity (Communal or from generator)	1,500	18,000
Water (Communal or from a borehole)	500	6,000
Agriculture employees: Reduced rate of benefits		
Water	200	2,400
Electricity	900	10,800

QUESTION ONE

(a) Name the conditions that must be fulfilled in order for a building to qualify for industrial building deductions. [5 marks]

(b) Sebu and Company Limited was incorporated in 2009 but did not start business until 1 January 2010 when the company commenced the business of processing tea in Nyeri. The following details related to the acquisition of fixed assets in the year 2010.

	Kshs.
Land building	6,500,000
Plant and Machinery	4,000,000
Motor vehicles - 2 saloon cars	2,000,000
Tractor	5,000,000
Lorry (2 tons)	2,500,000
Furniture and fittings	600,000
Construction and drains	150,000
Fencing of Farm	50,000
Farmhouse	600,000
Irrigation system	750,000
Labour quarters	1,200,000
Computers	220,000
Milking Machinery	300,000

The following further information is provided:

- The company kept 10 cows and constructed a cattle dip worth sh.400,000 for the animals during the year.
- Included in land and building is the cost of land valued at sh.2,000,000.
- One saloon car was disposed of for sh.500,000 which was half the cost price.

Required:

Capital deductions for Sebu and Company Limited for the year of income 2010.

[20 marks]
[Total = 25 marks]

QUESTION TWO

Mr. S. Zandoi retired from employment in 2009. He was later employed by AB Wholesalers Company Limited from 2 January 2010 where he earned the following during the year:

- Salary Sh.90,000 per month (PAYE sh.15,000 per month)
- Insurance paid for him by the employer was equal to 2% of his basic salary.
- Dividend received from the Company (AB Wholesalers Company Limited) of sh.19,000 (net). He holds 20% of the shares of the Company.
- Received end of year bonus of 5,000 shares whose market price was sh.6 per share.
- He was housed by the employer and the company deducted 30% of his basic salary to cover part of the rent. The Company pays Sh.40,000 per month as rent to the landlady. This sum is equivalent to the market rate of the rent.
- Employer paid sh.25,000 school fees for his children during the year. This was treated as an allowable expense on the employer.
- Medical expenses paid by his employer amounted Sh.90,000. Only senior managers are covered by the scheme.
- He earned rent from private property. The following information relates to rent for the year 2010.

Repairs	Sh.
Interest on Mortgage	10,000
Legal fees – rent collection	200,000
Specific bad debts	80,000
Rates	8,000
Gross rent	6,500
Fine for fixing water meter illegally	450,000
Construction of additional room	5,400
	15,000

9. Interest earned: Post Office Savings 16,000

10. Pension Income
Pension from previous employment Sh. 20,000 per month (PAYE Sh.5,000 per month)

11. Farm Income:
Loss from farming for 2007, 2008 and 2009 amounting to Sh.80,000, Sh. 50,000 and Sh. 130,000 respectively. Profit for the year 2010 amounted to Sh.320,000. Mrs. Zandoi is also employed by the AB Wholesalers Company Limited and she received a salary of Sh.20,000 per month (PAYE Sh.5,000 per month).

Required:

(a) The taxable income for Mr. and Mrs. Zandoi for the year 2010. [15 marks]

(b) Calculate tax payable thereon. [5 marks]

(c) What is the tax treatment of cash and non-cash benefits received from business colleagues? [5 marks]
[Total = 25 Marks]

QUESTION THREE

(a) (i) What is a tax invoice? [5 marks]

(ii) State three reasons why VAT tax invoices are important. [5 marks]

(b) Given below is the summary of sales day book and purchases day book of Karara Limited for the year of income 2010.

Purchases day book	Sh.
Shoes	10,000
Clothes	50,000
Advertising	12,000
Materials	24,000
Goods	130,000
	226,000
Sales Day Book	Sh.
Clothes	100,000
Goods	230,000
Shoes	15,000
	345,000

Each of the above items includes VAT at a rate of 16%.

Required:

(i) The VAT account to record the above items showing the balance due. [5 marks]

(ii) State when the above is payable. [5 marks]

(iii) State the penalties to be levied if VAT is not remitted on the due date. [5 marks]

[Total = 25 marks]

QUESTION FOUR

(a) Briefly explain the tax treatment of the following:

(i) Dividend to shareholders and appointment of profit to partners. [2 marks]

(ii) Directors salaries and partners salaries. [2 marks]

(iii) Interest paid to debenture holders and interest paid to partners. [2 marks]

(b) Marate, Irungu and Mulinge are in a partnership business sharing profits and losses in the ratio of 3:1:1 respectively. They have provided you with the following information relating to the partnership business for the year ended 31 December 2010.

Net profit	Sh.
After Charging:	
Motor Vehicle expenses	250,000
Repairs and Maintenance	120,000
Electricity and Water	160,000
	6320,000

Office stationery		180,000
Repairs of distribution van		15,000
Salaries and Wages		400,000
Postage and telephone		85,000
Salary to partners	<u>Sh</u>	
Marate	420,000	
Irungu	360,000	
Mulinge	<u>280,000</u>	
Rent expense		1,060,000
Depreciation		130,000
Insurance, legal and audit fees		80,000
Office Cash Machine		340,000
Household expenses – Mulinge		250,000
School fees for Marate		75,000
Interest on Capital		40,000
Marate	Sh.	
Irungu	120,000	
Mulinge	80,000	
	<u>60,000</u>	
		260,000

A motor car that had cost sh.3,500,000 in 2009 was sold for Sh.2,000,000 in 2010 and was replaced by a similar vehicle which cost sh.4,000,000. Forty percent of motor expenses are for private use by the partners.

Required:

- (i) The adjusted profit for partnership business for the year of income 2010. [14 marks]
- (ii) The taxable income for each partner and tax liability thereon. [5 marks]
[Total 25 marks]